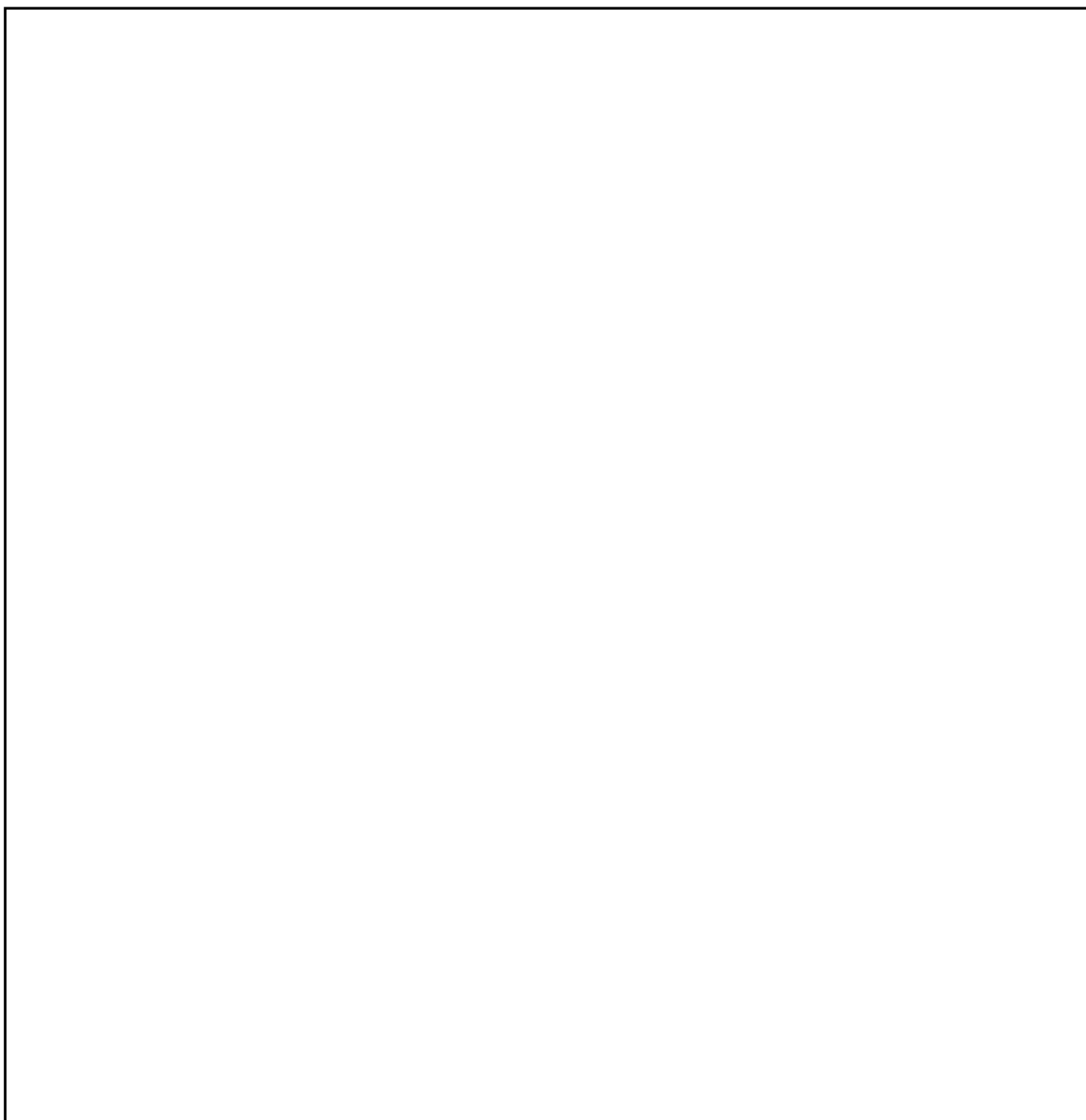


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28 JUN 1958

Conrad
Mr. Waddill Catchings

STATOTHR

Dear Waddill:

Thank you very much for your letter of June 19, with its enclosures and for the autographed copies of your two books. They will make a valuable addition to my personal library and I am looking forward to reading them.

Again I want to say how much I enjoyed the opportunity to hear your views on the extremely important issue of the role of economists in the cold war.

With kindest regards,

Sincerely,

WADD

Allen W. Dulles
Director

STATINTL

O/DCI/[]:kp

26 June 1958

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WADDILL CATCHINGS

STATOTHR

June 19, 1958

Mr. Allen W. Dulles
Central Intelligence Agency
Washington, D. C.

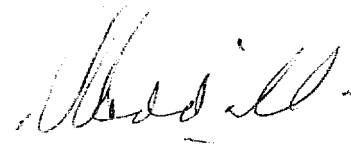
Dear Allen

Enclosed are two memoranda - one to refresh your recollection of my talk with you a short time ago, and the other to indicate my present thought of a possible solution of the problem stated in Memorandum I.

I am also sending you copies of my two books "Do Economists Understand Business" and "Bias Against Business," and I hope very much that you will take a quick look at them before passing them along to Mr. [redacted] I am also sending directly to him a copy of the second edition of "Money, Men and Machines" which contains three chapters written by Dr. Charles F. Roos just before his death as a technical presentation for professional economists.

With warmest regards and good wishes,

Yours faithfully,



MEMORANDUM I

A

THE FACTS

(Ample proof is available)

Until the Russians engaged us in cold warfare, with the ever-present threat of a hot war, the survival of our free society was not endangered by the fact that economists do not understand business. Heretofore there has been adequate time for the economic profession to learn by gradual observation how the money-and-profit mechanism of our system of competitive free enterprise has made possible our great industrial strength.

Now, however, in our struggle with the Communists it is of immediate importance that the persons who guide our economic actions know as soon as possible the forces which give virility to private enterprise. The teachers who create public opinion by classroom instruction in schools and colleges, the professional advisers who counsel our legislators in the formulation and enactment of laws have only a short time to learn how to make continued use to the utmost of the initiative, energy and resourcefulness of the American people.

The grim fact is that success or failure in our conflict with Russia actually depends upon the economic profession. They develop and

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expound our economic knowledge and furnish our classroom teachers and legislative advisers. They and they alone will guide the American people in the policies followed and the statutes enacted. In our world of experts, the professional economist is definitely and for all practical purposes, finally established as our economic expert.

The fact is grim because the numbers of the economic profession do not accept their responsibility. They have a casual attitude toward their part in the all-out struggle between Communism and private enterprise. They have not begun to realize the dire consequences of their failure to understand business as they urge more and more State planning and participation in economic life.

It is natural for the Russians to make use of a Government-planned economy. This method of conducting productive activities is effectively used by Dictators. It rests mainly upon coercion and makes use of incentive solely as a means of carrying out decrees of the State.

In the United States the economic profession is setting up what they call a "mixed economy." This consists of a Government-planned economy to the extent of over-all State supervision but contemplates the continued existence of vigorous private enterprise. This "mixed-economy" has been underway for many years, and now the Government's part is steadily and rapidly expanding. No one can tell when or how we are to limit or even to restrain this growth of bureaucracy.

Already we see plainly that our form of Government with its checks and balances -- its divided powers -- is not suited to effective

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use of State planning and supervision of economic life. Everywhere there is mounting Government spending as a result of pressure group politics -- such as parity prices, stockpiling of metals, subsidies for ship building. And day by day we proceed further in establishing the so-called "middle way" of moderate labor Socialism. Manifestly if we continue to rely upon this Government-planned "mixed-economy" as the method for conducting our productive activities we shall certainly be defeated in the war with Russia, hot or cold.

And in this "mixed-economy", production in private enterprise is retarded and reduced by taxation, inflation and the privileged powers of nationwide labor union. Thus we weaken our strength where we have heretofore been strong as we rely more and more upon methods in the use of which we are weaker than our adversary.

B

THE PROBLEM TO BE SOLVED

HOW TO AROUSE THE ECONOMIC PROFESSION TO CONSTRUCTIVE ACTION
IN TIME TO ENABLE US TO WIN THE COLD WARFARE AND TO PREVENT A HOT WAR?

The solution involves:

- a. Getting economists to see for themselves that the Russians with their State planned economy will inevitably defeat the United States if we continue to rely upon our Government-planned "mixed-economy."

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- b. Getting economists to understand the money-and-profit mechanism of competitive free enterprise, and 1) to devise methods of taxation which do not unnecessarily retard private enterprise production; 2) to set forth a means of protecting the value of the dollar, that is to say, of preventing inflation; 3) to develop a way for determining wages and working conditions which does not lead to Laboristic Socialism; and 4) to create a Government regulated "mixed-economy" as distinguished from a Government-planned "mixed-economy."

June 19, 1958

MEMORANDUM IIA TENTATIVE SUGGESTION OF A POSSIBLE SOLUTION

Get an outstanding economist to organize an institute for acquiring and using economic knowledge. For this purpose an existing tax exempt corporation would be used - changing its name, its purposes and its board of directors. This institute would not be part of any university but would obtain funds for direct grant to universities who would engage in realistic research, each grant being for use by a particular person for a definitely stated purpose. The Director would associate with himself a group of influential economists and the board of directors of the Institute would consist of leading businessmen, educators and personalities.

The Institute would employ or enable universities to employ promising young Ph.D.'s in economics - not only for acquiring knowledge but for using the knowledge that has been acquired. Each young economist to be employed for a period of two years and then to be replaced, so as to establish a continually renewed group.

The economists engaged, both those associated with the Director and those constituting the younger group, would supply the technical journals with numerous articles setting forth the knowledge acquired and its prospective use. In addition there would be a skilled popular writer who would supply for the press and magazines a layman's account of the undertaking and its accomplishments.

June 19, 1958